

Message Text

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PAGE 01 BERN 00440 01 OF 02 311612Z

43

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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USMISSION EC BRUSSELS

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LIMITED OFFICIAL USE SECTION 1 OF 2 BERN 0440

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS FOREIGN EXCHANGE SITUATION

REF: BERN 0320

1. SUMMARY. SHARP RECOVERY OF DOLLAR AGAINST SWISS FRANC JANUARY 28 AND 29 UNANIMOUSLY GREETED WITH SATISFACTION AND RELIEF IN SWISS BANKING AND GOVERNMENT CIRCLES. OUR SOURCES ARE NOT SANGUINE THAT CALM IN VERY NERVOUS FX MARKETS WILL BE EASILY RESTORED. THEY ALSO EXPECT THAT NEW PRESSURES (OF BOTH UPWARD AND DOWNWARD DIRECTION) COULD WELL OCCUR OVER NEXT FEW MONTHS. END SUMMARY.

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PAGE 02 BERN 00440 01 OF 02 311612Z

2. INFLUENTIAL NEUE ZUERCHER ZEITUNG CARRIED LENGTHY ARTICLE

JANUARY 29 BY WASHINGTON CORRESPONDENT HELMUT REINCKE ENTITLED "THE FORGOTTEN DOLLAR - WASHINGTON BREAKS ITS SILENCE" COVERING A) COMMENTS TO PRESS BY SECRETARY SIMON AND UNDER SECRETARY BENNETT JANUARY 27; AND B) SINGAPORE SPEECH BY FEDERAL RESERVE GOVERNOR WALLICH. OTHER SWISS PAPERS CARRIED BRIEFER ACCOUNTS OF SIMON-BENNETT REMARKS JANUARY 28.

3. EMBOFF MET JANUARY 28 IN ZURICH WITH MANAGER FOREIGN EXCHANGE DEPARTMENT OF ONE OF THREE BIG SWISS BANKS AND WITH SENIOR SWISS NATIONAL BANK OFFICIAL WHO HAS BEEN MUCH INVOLVED IN FORMULATING VARIOUS SNB CAPITAL CONTROLS. BOTH THOUGHT MAIN REASON FOR REVERSAL OF MARKET TREND WAS OVER-SOLD POSITION OF MANY IN MARKET AND RECOGNITION THAT JANUARY 27 SHARP DOLLAR DROP IN RESPONSE LARGELY TO DECEMBER U.S. TRADE FIGURE ANNOUNCEMENT HAD BEEN MUCH TOO EXTREME. FX MANAGER THOUGHT IT UNFORTUNATE THAT IN HIGHLY VOLATILE AND CONFUSED MARKET SITUATION THERE WAS APPARENT ADVANCE LEAK OF TRADE DATA SOME TWO HOURS PRIOR OFFICIAL RELEASE. HE ACKNOWLEDGED THAT WITH PSYCHOLOGICAL FACTORS AND INSTANT COMMUNICATION FACT OF LIFE IN TODAY'S FOREIGN EXCHANGE MARKETS ALL TRADERS TEND TO FOCUS ON FEW BOTTOM-LINE INDICATORS (E.G. U.S. AND GERMAN MONTHLY TRADE FIGURES, VARIOUS BALANCE OF PAYMENTS MEASURES, RUMORS, STATEMENTS OF OFFICIALS, ETC.) WITHOUT ATTEMPTING ANALYZE REAL MEANING OF DATA AND WITHOUT APPRECIATING VARYING CONTEXTS IN WHICH DEVELOPMENTS OCCUR. OUR SOURCES HAVE ALSO REPEATEDLY STRESSED THAT MARKET HAS BEEN THINK WITHOUT MASSIVE MOVEMENT OF FUNDS.

4. ZURICH SOURCES ALSO EXPRESSED CAUTIOUS HOPE THAT VARIOUS SWISS MEASURES TO OFFSET SF APPRECIATION HAD BEGUN TO TAKE HOLD. THEY READILY ADMITTED THAT 40 PERCENT FEE ON NON-RESIDENT SF ACCOUNTS SOUNDED MUCH MORE EXTREME THAN WAS REALLY CASE SINCE VARIOUS OTHER ATTRACTIVE ALTERNATIVES WERE AVAILABLE TO STAY IN SF. EXISTING FOREIGN TERM BANK DEPOSITS EARN INTEREST AND NOT SUBJECT FEE UNTIL EXPIRATION. IMPROVED SWISS BOND MARKET SITUATION PRIMARILY DUE TO FOREIGN PURCHASES. BANK NOTES HAVE RECENTLY BEEN ESPECIALLY ATTRACTIVE, PARTICULARLY TO THOSE FROM ITALY, SPAIN, PORTUGAL, AND GREECE. (SNB ESTIMATES THAT NOT CIRCULATION SHOULD LIMITED OFFICIAL USE

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PAGE 03 BERN 00440 01 OF 02 311612Z

IN LATE JANUARY BE IN SF 16.5 BILLION RANGE RATHER THAN CURRENT SF 18 BILLION.) FOREIGNERS WITH SWISS FRANCS HAVE ALSO BEEN ABLE ENTER FORWARD CONTRACTS AT SMALL DISCOUNT AND EURO-SWISS FRANC RATES STILL FAIRLY ATTRACTIVE. THUS, PROBABLY MOST IMPORTANT OF CURRENT MEASURES ARE REQUIREMENTS THAT BANKS MAINTAIN BALANCED FOREIGN EXCHANGE POSITION ON DAILY BASIS AND THAT THEY REDUCE NON-RESIDENT FORWARD CONTRACTS (WITH MATURITY OF TEN DAYS OR MORE) TO 90 PERCENT

OF OCTOBER 31 LEVEL BY JANUARY 31 AND TO 70 PERCENT BY
FEBRUARY 28.

5. AS REPORTED PREVIOUSLY ANOTHER LIKELY POSSIBILITY IF
FURTHER ACTION DEEMED NECESSARY WOULD BE CLOSURE TO
FOREIGNERS OF SWISS FIXED-TERM AND STOCK MARKETS, A DEVICE
WHICH HAS BEEN USED IN PAST. HOWEVER, IN VIEW CAPITAL
MARKET FINANCING REQUIREMENTS SOME OBSERVERS DOUBT THIS
STEP WILL BE TAKEN OR AT LEAST NOT PRIOR MID-FEBRUARY WHEN
GOVERNMENT PLANS SF 250 MILLION 15-YEAR 7 3/4 PERCENT ISSUE.
REINFORCEMENT OF EXISTING MEASURES OR INTRODUCTION OF OTHER
NEW CONTROLS ALSO POSSIBLE. OUR CONTACTS NOW VIRTUALLY
RULE OUT TWO-TIER EXCHANGE MARKET BECAUSE OF ADMINISTRATIVE
PROBLEMS, LIKELY ABUSES, AND EXPERIENCE ELSEWHERE. SNB
OFFICIAL ADMITTED, HOWEVER, THAT AUTHORIZATION RECENTLY
GIVEN SNB STERILIZE SF PAID OUT FOR DOLLARS IN NON-INTEREST
BEARING ACCOUNT COULD HAVE EFFECT OF ESTABLISHING DE FACTO
TWO-TIER MARKET. SOURCE INDICATED SNB HAS NO PLANS IMPLEMENT
THIS AUTHORITY BUT IS PLEASED HAVE ANOTHER WEAPON AT ITS
DISPOSAL. FURTHER DIRECT MARKET INTERVENTION POSSIBLE
ALTHOUGH SNB OBVIOUSLY INTENDS PROCEED CAUTOUSLY AND WITH
RESTRAINT. DOLLAR SALES ALSO QUITE POSSIBLE SHOULD DOLLAR
TEND APPRECIATE SIGNIFICANTLY AT SOME FUTURE DATE.

6. NO CLEAR CONSENSUS EXISTS RE PRIMARY CAUSE OF RECENT
MARKET DEVELOPMENTS. AMONG MOST FREQUENTLY MENTIONED FACTORS
ARE INTEREST RATE DIFFERENTIALS; CONCERN RE FY 75 AND 76
U.S. ECONOMIC PROSPECTS, PARTICULARLY FINANCING REQUIREMENTS
AND POSSIBLE NEW INFLATIONARY IMPETUS; DOUBTS RE PROSPECTS
IN CONGRESS FOR ADMINISTRATION ECONOMIC/ENERGY PROPOSALS;
STAGNANT ACTIVITY UNTIL RECENTLY IN NEW YORK STOCK EXCHANGE;
AND EFFORTS OF SWISS BANK CORP. AND OTHERS WITH FORWARD
EXCHANGE CONTRACTS WITH EDILCENTRO/BAHAMAS AND OTHER
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PAGE 04 BERN 00440 01 OF 02 311612Z

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PAGE 01 BERN 00440 02 OF 02 311619Z

43
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CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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LIMITED OFFICIAL USE SECTION 2 OF 2 BERN 0440

ELEMENTS OF SINDONA FINANCIAL HOLDINGS, INCLUDING FINABANK/ GENEVA, TO LIQUIDATE POSITIONS ENTERED INTO AT MUCH LOWER SF/\$ RATE (BERN 183). SWISS BANK CORP, ISSUED WOMEWHAT EQUIVOCAL STATEMENT JANUARY 29 WHICH COULD BE INTERPRETED TO MEAN THAT ITS LOSSES FROM THESE CONTRACTS WILL NOT BE MAJOR OR THAT DOLLARS INVOLVED HAVE ALREADY BEEN DISPOED OF THROUGH MARKET. MOST OBSERVERS ASSIGN FAIRLY SIGNIFICANT IMPORTANCE TO SINDONA-RELATED TRANSACTIONS IN INFLUENCING MARKET OVER PAST THREE WEEKS. ALSO OF CONCERN IS PAST PRACTICE OF SOME BUT NOT ALL SWISS BANKS TO TAKE POSITIONS FOR OWN ACCOUNT IN FORWARD MARKETS. OUR SOURCES CLAIM THAT SUCH SPECULATIVE ACTIVITY IS DRYING UP, PARTLY UNDER INFLUENCE OF RECENT DAILY BALANCING REQUIREMENTS.

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PAGE 02 BERN 00440 02 OF 02 311619Z

7. UNION BANK IN JANUARY 27 EDITION OF ITS PUBLICATION "FOREIGN EXCHANGE NEWS" PLANS A) MATURING FORWARD CONTRACTS RELATED TO REPAYMENT OF FOREIGN MEDIUM AND LONG-TERM SWISS FRANC DEBT; AND B) JANUARY-FEBRUARY 1974 SUBSTANTIAL CENTRAL BANK DOLLAR SALES WHICH TRANSFORMED DOLLAR SHORTAGE INTO GLUT (BERN 4758). UBS ALSO STATES "INFLOW OF FOREIGN FUNDS, DEFINITELY NOT OF OPEC ORIGIN ... WAS AT BEST A TRICKLE..." OTHERS ASSIGN MORE IMPORTANCE TO PETROCURRENCY INFLOWS, NOTING EFFECTS OF ANY INCREASE IN MID-EAST TENSION AND

LOGICAL MOVE TOWARD SOME DIVERSIFICATION OF HOLDINGS INTO VARIOUS CURRENCIES. THUS, SOME SWISS WELCOME REPORTS THAT ARAB GOVERNMENTS ARE ALLEGEDLY BEING ASKED BY PLO REDUCE SF HOLDINGS AS FORM OF PROTEST INTER ALIA RE SWISS PLANS DISPOSE OF UNCLAIMED JEWISH WARTIME ASSETS IN SWISS BANKS BY PAYMENTS TO ASSOCIATION OF SWISS-ISRAELI COMMUNITIES AND TO PRIVATE REFUGEE RELIEF ORGANIZATIONS (BERN 4661).

8. GOLD MARKET HAS BEEN CALM AND LARGELY UNAFFECTED BY EXCHANGE MARKET CONDITIONS ALTHOUGH OUR SOURCES CONFIRM THAT THEY CONSIDER THAT DE FACTO FLOOR CURRENCY EXISTS AROUND \$170.00.

9. BANK SOURCES ALSO FEEL THAT PAST GERMAN STATEMENTS WELCOMING OR EVEN ENCOURAGING DM APPRECIATION WERE MOST UNHELPFUL IN STIMULATING PRESSURE ON CLOSELY RELATED SF. OF FAR GREATER CONCERN TO SWISS THAN DOLLAR RATE IS SF/DM CROSS-RATE.

10. BOTH BANKERS AND AUTHORITIES ARE NOT HAPPY WITH RE-IMPOSITION CONTROLS WHICH WILL TEND REDUCE ROLE OF SWITZERLAND AS INTERNATIONAL FINANCIAL CENTER BUT FEEL THERE WAS NO ALTERNATIVE IN ORDER TO PRESERVE COMPETITIVENESS SWISS EXPORT AND TOURIST INDUSTRIES.
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